Merger & Acquisition Basics

For

Product Managers

DEVELOPMENTCORPORATE

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Overview

The objective of this paper is to provide product managers with some practical insights into the overall merger and acquisition process. I have been involved in product management for over 15 years. As a corporate development executive, I have led five major acquisitions and eight divestitures. We will cover three key topics:

Topic	Overview
Types of M&A	The basic types of M&A – Acceleration, Diversification, and Consolidation
M&A Roles & Responsibilities	A discussion of the roles and responsibilities of key players in the M&A process, including product managers
M&A Process Overview	A discussion of the major process steps and deliverables in the M&A process, from Background Research all the way through Post Closing Assessment.

Confidentiality

Before we begin I would like to talk about confidentiality and non-disclosure agreements. If you are asked to participate in a M&A project it is very likely that your company has signed a non-disclosure agreement that you will be bound by. You must go to great lengths not to disclose anything about the project, even to friends and family. Insider trading is a real crime and the feds regularly prosecute it. Even if your company is not public, you still need to be vigilant. Talk about M&A can cause fear and distress amongst your fellow employees. Acquisitions create change and some people do not react well to change. If you ever have a question about who you can or cannot talk to about your involvement in a M&A project talk to your boss or the person who brought you into the process for guidance.

Types of M&A

There are three basic types of Mergers & Acquisitions – Acceleration Deals, Diversifications Deals, and Consolidation Deals.

Acceleration Deals

Acceleration deals are opportunities that significantly accelerate a firm's ability to enter and grow in a market. They are the Buy portion of the typical Buy-Build-Partner decisions product managers make every day. For example in 2003 the company I worked for acquired IPNet Solutions – a provider of Internet EDI communications solution. Inovis was an EDI company – they had software products, outsourcing services, and a Value Added Network (VAN) that supported the Electronic Data Interchange needs of enterprise companies, midmarket firms, and small to medium enterprises. In 2002, the EDI market underwent a fundamental change. Instead of relying on expensive Value Added Networks, dial up modems, or leased lines to send and receive EDI documents (purchase orders, shipment notifications, invoices, etc.) a new communications technology known as AS2 began to disintermediate tradition EDI communications. AS2 offered secure, non-repudiable communications for free over the Internet. Customers only needed to buy certified AS2 software and they could bypass the traditionally

expensive EDI Value Added Networks. In 2002 the EDI market was disrupted by AS2 when Wal-Mart decided to move all of its EDI communications to AS2. While Inovis had the capabilities to develop, market, and sell its own AS2 solution, they decided to accelerate their entry in the market by acquiring IPNet Solutions. They immediately gained access to market leading technology, expanded their revenues and profits, and gained some very capable technologists and sales people.

Another type of acceleration acquisition is the acqui-hire. Acqui-hires are deals that are primarily focused on acquiring specific technical talent, versus entire businesses. Acqui-hires typically occur in the visionary stage of the Technology Adoption Lifecycle. They are usually firms that have exhausted their seed and angel funding and struggled to raise a Series A round of funding. FaceBook's acquisition of Eyegroove, Endaga, and Vidpresso are all examples of acqui-hires. Acqui-hires allow a company to accelerate the development and delivery of new technology at a lower risk than developing it themselves. While acqui-hiring was popular from 2007-2015, the pace of acqui-hire deals has slowed significantly.

Diversification Deals

Diversification deals focus on expanding into new or complementary markets. Let us assume that your firm is currently in the warehouse management market, which is part of the overall supply chain management market. In supply chain management there are five major sub markets – supply chain planning, supply chain manufacturing, supply chain distribution, supply chain sales, and supply chain services. Warehouse management is part of the supply chain distribution segment. Other sub-segments include inbound logistics, outbound logistics, transportation management, vendor managed inventory, global trade management, etc.

When considering diversification opportunities you want to look for sub-markets/solutions/companies that complement your existing solutions. Your current customers should use a targeted company's solutions. The buyers of the solution (economic, using, and technical buyers) should be similar to the buyers for your solutions. Your existing solution should provide either inputs to the targeted solution or process outputs from your solution. Diversification opportunities provide a way to accelerate your revenue and profit growth at a significantly lower risk than developing, marketing, and selling your own solution.

Consolidation Deals

Consolidation deals focus on acquiring and integrating companies that offer similar solutions to your current solutions. Basically you use your current business as a platform and consolidate non-critical business functions like marketing, customer service, professional services, finance, HR, accounting, facilities, data centers, hosting operations of acquired companies into your platform. Research & Development as well as sales tend to remain as standalone units.

In the 1980s and 1990s companies like Computer Associates, Platinum Technology, and Sterling Software were classic consolidators. I was the Group VP Business Development for Sterling's Application Management Group in the late 1990s where I was responsible for a number of acquisitions and divestitures. In today's market companies like Oracle, Gores Group, and OpenText are active and successful consolidators.

Consolidation typically occurs in the latter stages of the Technology Adoption Lifecycle – usually Late Majority or Laggards. It is predicated on the assumption that a company's expenses can be significantly reduced through the consolidation of non-critical overhead functions. Also, economies of scale can be realized through the integration of marketing, sales, operations, and professional services and the cross selling of products and services into the assembled customer base. The acquiring company obtains the benefit of increased revenues and profitability.

While I was at Sterling I played a key role in the consolidation of the enterprise application development tools business. Sterling entered the enterprise application development tools business in 1994 through the acquisition of KnowledgeWare, Inc. KnowledgeWare had a suite of tools that supported Information Engineering-based Strategic Planning, Analysis, Design, and code generation. KnowledgeWare's tools focused primarily on large scale IBM mainframe systems. In 1997 Sterling acquired Texas Instruments Software business. This expanded Sterling's revenues by over $200 million with direct operations in 18 countries and distributors in an additional 23. Sterling now had the dominant market position in mainframe and Unix based environments. In 1998 Sterling acquired Synon Corporation. Synon was the market leader in application development and code generation tools for the AS/400 / iSeries platform and Windows. In 1999 Sterling completed their acquisitions in the tools space through the acquisition of Cayenne Software. Cayenne was a leader in application development tools for real time and embedded systems, as well as for complex relational databases (Former Bachman Information Systems). As a result of all these acquisitions Sterling's Application Management Group grew to $357 million in revenue and $89 million in operating profit in 1999. They had the leading market position in application development tools for IBM mainframes, Unix, Linux, AS/400 & iSeries. They had a minor position in the Windows and Windows NT platforms.

Roles & Responsibilities

The objective of this section is to describe, at a high level, the major roles and responsibilities in a typical tech M&A project. Each company tends to have their own playbook for M&A deals. Based on my past experience I have summarized the typical roles and responsibilities in a M&A project. You should talk with people in your company to learn if there is a formal process in place for deals and what the roles and responsibilities are in that process.

CEO/President

The top executive in your company will lead your project. They are accountable for recommending the deal to the board of directors, investors, shareholders, and lenders if required. The CEO/President will actively participate in almost every step of the process. Most CEOs will have had past experience in M&A and will impart their particular style on the deal. Personal styles vary significantly. One CEO that I worked for, who had led over 60 M&A deals, was very aggressive. He used the process to dominate the target company and convert the target company's executive to his vision of a management system. He tried to keep the target company so busy with due diligence tasks and integration planning tasks that they barely had time to breathe or really think about what they were doing. Other CEOs I have worked for have taken a more collegial approach to the process aimed at winning the hearts and minds of the target company. A third CEO delegated most of the work to his executive team. One approach is not

necessarily better than another. What is important is to understand how your leadership wants to approach the process.

CFO/VP Finance

The CFO/VP Finance will be involved in nearly every aspect of the process. First, they will be the definitive source of financial information and modeling. They will construct models of your company's finances, the target company's finances, and what the combined company's financial statements will look like. CFOs will play a major role in the due diligence process. In addition to conducting financial due diligence, they will also typically coordinate legal due diligence (in most company's internal general counsel often reports up through the CFO). The CFO will be actively involved in briefing boards of directors, investors, investment bankers, and lenders. CFOs bring a unique perspective to the table. They can bring practical insight into the operation of almost every function in the business that can help with the assessment, diligence, integration planning, and rollout of the acquisition.

General Counsel

Many companies have their own internal general legal counsel. They also employ outside law firms to support various parts of the transaction. This includes items such as legal due diligence, formation of legal entities to effectuate the acquisition, negotiation and execution of agreements such as term sheets, definitive agreements, and regulatory filings.

VP Business/Corporate Development

The VP of Business/Corporate Development will serve to coordinate the overall process. Typically this involves doing baseline research and analysis of acquisition candidates and arranging initial meetings between their company's management and the target company's team. He/She will be responsible for coordinating the due diligence process including the development of diligence information requests, managing the data room where confidential information is exchanged, and managing the logistics of the diligence process. The VP Business/Corporate Development will typically be the point person for managing the relationships with Investment Bankers involved in the process. They will also coordinate the merger integration planning and rollout process.

VP Human Resources

The senior executive responsible for human resources will be involved in due diligence, integration planning, and acquisition roll out. They will be responsible for assessing talent throughout the organization. In diligence they will assess compensation plans, benefit plans, human resource information systems, training programs and systems, compliance with various regulations, and employee-related litigation. During Integration Planning they will determine how to blend compensation and benefit plans, employee and onboarding. In many acquisitions some employee positions are eliminated or made redundant. The senior HR executive will determine and manage severance plans. They will also orchestrate the process of notifying employees of the termination of their employment. They will handle mandatory regulatory notifications, like warnings under the U.S. Worker Adjustment and Retraining Act. If the company has International operations The VP HR will also coordinate dealings with employee organizations such as European Works Council.

CTO/VP Research & Development

The senior technology executive in the company will generally participate in almost every part of the process. They may not be involved in the very early stages of the process where the CEO/CFO first meet with the target company's management, but once there is a basic agreement to seriously explore a deal, usually after the exchange of a term sheet, they will be actively involved. The CTO/VP R&D will be the primary person to assess the quality and capabilities of the target company's solutions, technology, and technical operations. They and their team will develop the technical diligence request and conduct technical due diligence. They will assess the risks the target company's technology has and what steps have been taken to mitigate those risks (e.g. disaster recovery, continuity of technical operations, etc. In Integration planning they will determine how to blend development teams and organizations, as well as consolidate/leverage development environments, data centers, and cloud operations. Post closing they will lead the expeditious rebranding of products and services to meet the needs of the new organization.

VP Operations

In organizations that offer SaaS or hosted solutions, the senior executive responsible for those operations will be involved in the M&A process in a manner similar to the CTO/VP Research & Development. As a part of the diligence process they will assess the structure, capabilities, and certifications of data centers or outsourced operations. They will rationalize, to the extent possible, the costs and use of infrastructure software like operating systems, databases, packaged software, systems management tools, etc. In Integration planning they will develop a detailed plan to integrate the two company's technical operations. Often, they will find best practices and capabilities in the target company's operations that can be leveraged in their own.

CMO/VP Marketing

Like the CTO, the senior marketing leader will typically get involved in the process once a decision has been made to work together. They will prepare the marketing due diligence list and participate in the sales, marketing, and technical due diligence sessions. They will be accountable for assessing the product management and product marketing teams. They will also assess demand generation programs and major events like customer conferences, trade shows, and advisory board meetings. The senior marketing leader will manage the relationships with industry analysts like Gartner, Forrester, Ovum, etc. and manage the briefings of analysts at the appropriate time. They will also be responsible for updating corporate branding, signage, websites, etc. They will oversee the work of product managers / product marketers in the Integration Planning process and the acquisition rollout.

Product Managers

Product Managers are usually involved in three parts of the process. First, they participate in background research and acquisition candidate analysis. Product Managers are expected to be experts in your company's markets. They understand the size, growth trends, and key drivers. They also should understand the competitive landscape – who re the competitors, the positioning of the products/services, the opinions of industry analysts, the geographies where they sell and support customers, the pros and cons of their technology. They should also understand the basic revenue, profit, and valuation trends.

Product Managers also play an important role in merger integration planning. They assist in the development of the new company's positioning, the roadmaps of acquired products/services, overall goto market plans. They also participate in the development of marketing and sales training materials that are deployed during the rollout.

Product Marketers

Product Marketers play a similar role to product managers. They may be involved in background research and acquisition candidate analysis. The play a key role in integration planning and roll out. They develop the combined companies messaging platforms, value equations, and proof points. They update corporate branding, collateral, signage, websites, and sales tools. They brief industry analysts and press on the acquisition. They play a major role in sales training during the rollout phase of the acquisition.

VP Sales

The VP of Sales will be involved in the latter stages of due diligence, integration planning, and acquisition rollout. VP Sales are often not involved in the early stage of the process due to concerns that their own company must continue to hit their revenue targets and the target company may be sensitive that they will expose too much info about major sales deals and the contents of their pipeline. Once the definitive agreements have been negotiated, the VP of Sales starts to play an active role. They need to assess the structure and talent in the sales team, both direct sales and indirect sales via partners and distributors. They must assess sales compensation plans and determine how to integrate such plans with their current sales compensation plan. They also assess the sales process and support tools like SalesForce. Often, the head of sales will tour International sales locations with the CO and CFO during operational due diligence. In integration planning they determine how to structure the combined sales force, what sales process to use, who the sales leaders will be, as well as sales compensation and quotas.

VP Professional Services

The VP Professional Services will be involved in due diligence, integration planning, and rollout activities. They will assess the consulting leadership and staff as well as their consulting offerings. They will also assess the depth, quality, and availability of external consulting partners. In Integration Planning they will design the integration of the two professional services organizations and how professional services are sold.

Part III: M&A Process

The objective of this section is to describe, at a high level, the steps in a typical tech M&A project. Each company tends to have their own playbook for M&A deals. Based on my past experience I have summarized the typical process steps in an M&A project. You should talk with people in your company to learn if there is a formal process in place for deals. Typically your company will have already developed an acquisition strategy. Check out this post for more details: How to Build a M&A Strategy. Your firm will also have developed an initial analysis of the target company using publicly available and open source information. For more information check out: Acquisition Candidate Analysis.

The basic process for an acquisition includes the following steps:

- Approach & Initial Meeting
- Initial Expression of Interest
- Management Team Meetings
- Term Sheet
- Due Diligence
- Agreement Negotiation
- Regulatory Clearance
- Integration & Rollout Planning
- Closing
- Rollout
- Post Rollout Assessment

Approach and Initial Meeting

The process begins with an approach to the targeted company. Typically the senior corporate development executive will approach the target company's CEO to see if they would be interested in having some discussions. Alternatively, if the company is actively running a sale process an investment banker will contact your company to see if there is an interest in further discussions. In rare cases, investment bankers may contact your firm during a 'go shop' period. In these situations, the target company will have already entered into a definitive agreement to be acquired by another firm. To give the target company's board of directors a fig leaf of cover in performing their fiduciary responsibilities most deals contain a No Shop or a Go Shop period. to seek out competing offers even after it has already received a firm purchase offer. The original offer then functions as a floor for possible better offers. The duration of a go-shop period is usually about one to two months. Go-shop agreements may give the initial bidder the opportunity to match any better offer the company receives, but normally pay the initial bidder a reduced break fee if the target company is purchased by another firm. Historical data has demonstrated that a very small fraction of initial bids are cast aside in favor of new bids during go-shop periods.

Initial meetings typically involve the CEOs of each company and maybe one or two other key executives. The purpose of the meeting is to discuss each company's business and the potential of a deal between the two companies. Generally, non-public information is not disclosed during these 'get-to-know-you' meetings. Often, a range of valuations the target company considers to be appropriate are reviewed. The usual next step at this point is for both companies to execute a mutual non-disclosure agreement.

Initial Expression of Interest

Before proceeding to a more in depth discussion, sellers will often want potential buyers to submit a formal initial expression of interest. This is a non-binding description of the structure, valuation, timing, and contingencies associated with a potential deal. Sellers only want to engage with buyers that are serious about closing a deal and that the buyer has the resources and approvals to make the deal actually happen.

Management Team Meetings

Once an NDA is signed, the next step is to hold meetings between the two companies' management teams. Typically the CEO, COO, CFO, VP R&D/Operations, VP Corporate Development, and VP Marketing attend. More or fewer members of the teams attend depending on the circumstances and preferences of the CEOs. The goal of these meetings is for your company to gain enough insight into the target's business so you will be able to make a firm offer. While your organization may suggest topics that they would like to see covered, typically the target company controls the agenda and presentation. Topics usually include a brief financial statement review, organization chart review, market overview and competitive landscape, product/service overview/demos, sales channel reviews, customer service overview, professional services overview, and a finance and administration overview. Most meetings last one day and maybe be preceded or followed by an informal dinner so the players can get the chance to know each other on a more personal basis.

After the meeting has been completed, each member of your company's team that participated should write up a brief overview of what they learned and what additional risks and concerns they have about the target company and deal. A formal debriefing session should be held where everyone can share their perspectives.

Term Sheet

When ready, the next stage of the process is to submit a term sheet to the target company. A term sheet is usually a formal offer to buy the company. It is expressed as a series of bullet points versus a complete purchase or sale agreement. Term sheets typically cover the structure of the transaction (stock purchase, asset purchase, break up fees, etc.), the consideration or value of the purchase, major milestones, and material terms and conditions (completion of diligence, securing debt financing, typical representations and warranties) etc.

A term sheet is generally a brief document – no more than a few pages. It becomes the foundation for development of comprehensive transaction documents which can run into the hundreds of pages. The parties can negotiate these terms at a high level before incurring the significant expense of having attorneys draft the formal agreements. Most term sheets are contingent upon the satisfactory completion of due diligence. Once the terms have been accepted the rest of the process can get underway.

Due Diligence

Due Diligence is the process by which the buying organization conducts a comprehensive investigation of the target company's finances, legal affairs, and operations. Generally there are three major types of due diligence:

- Financial Due Diligence. This is a comprehensive review of a company's financial statements, policies and accounting controls. The CFO/VP of Finance leads this process, often times assisted by outside auditors and experts. If the target company has operations outside of the USA additional experts in local geographies may be required as well. Typical activities include review of financial statements, assessing the quality of earnings, federal, state, and local taxes, reviewing past reports from independent auditors, etc.

- Legal Due Diligence. Involves reviews of corporate structure, legal entities, board minutes, past and current litigation, employment agreements, and shareholder agreements. If appropriate debt agreements and compliance with covenants is covered as well.
- Operational Due Diligence. Operational due diligence involves the various functional parts of your organization reviewing their counterparts in the target organization. This includes Marketing, Product Management, Product Marketing, Research & Development, Technical Operations, Customer Services, Sales, Finance & Administration and Human Resources.

The Diligence process typically has five major steps. First, each functional area will develop a diligence information request. This lists the topics, deliverables, reports, and issues each area would like to cover in their diligence activities. Care must be taken not to overburden the target company with requests that take a long time to produce. Usually existing management reports and analyses can satisfy most diligence requests. As the target company assembles responses to the diligence request, the results are often uploaded to an online, secure data room where the appropriate people at both organizations can access the information. The next step involves diligence meetings. In these meetings, each part of the diligence team meets with their counterparts to review the requested diligence information, pose questions, and resolve any open issues. These meetings typically take a couple of days and are often held at offsite locations to minimize the impact of the target company's operations. After the meetings are completed each diligence team will prepare a formal diligence report that describes the results of their investigations and any remaining open issues or risks. Finally a formal meeting is held to review the diligence reports and make recommendations on whether to proceed or not to proceed with the transaction.

Most diligence investigations find only minor issues or problems. Occasionally, larger issues are found. One deal I was tangentially involved in 1994 was when Sterling Software acquired KnowledgeWare, Inc. During the diligence process Sterling discovered a number of revenue recognition issues associated with channel sales and side letters. Sterling forced KnowledgeWare to restate their financial statements and they established a $15 million escrow account from the sale proceeds to deal with various lawsuits. I was a mid-level manager at the time.

Agreement Negotiation

In parallel with the diligence process, the companies will negotiate the formal agreements to effectuate the merger. Two common approaches are a stock purchase agreement or an asset purchase and sale agreement. If both companies are privately held the agreements are simplified somewhat. If one or both companies are publicly held things get a bit more complex.

Stock purchase agreements are the most common. Under this approach, your company purchases all of the outstanding stock of the target company. The consideration may be all cash, a combination of cash and stock, or all stock. To get a feel for the structure and complexity of these documents take a look at the table of contents in this link. It is the definitive agreement for Open Text to acquire EasyLink Services, a company I was a senior executive of (I left well before the merger was made). The agreement is over 75 pages.

In the case where the target is a public company, an additional step is required. The company will have to get approval from its stockholders. This requires a couple of steps. First, a formal proxy statement has to be developed and filed with the SEC. Here is a link to EasyLink's proxy statement for the deal where it was acquired by Internet Commerce Corporation. I was actively involved in this deal. Once the proxy statement has been filed with the SEC, they review it, and generally approve it. At that point the proxy statement is declared to be effective and the shareholder vote can be scheduled and held.

Asset Purchase Agreements are often used for smaller types of transactions. Generally your company buys specified assets of the target company – intellectual property, customer contracts, employment agreements, international distribution rights, accounts receivable, copyrights, trademarks, patents etc. The buying company specifically does not purchase any liabilities. Asset purchase agreements are usually easier to negotiate, execute, and close. Asset purchase agreements are often used in divestitures when only a portion of a company's business is being sold to an acquirer.

Regulatory Clearance

Some acquisitions require approval from regulators before they can close. In the United States the Hart Scott Rodino act controls regulatory approvals for acquisitions. Under HSR, the acquirer files a notification with the Federal Trade Commission and the Department of Justice. Typically they take 15 to 30 days to approve the transaction or object to it. There are guidelines regarding which transactions are required to file, but generally companies with less than $200 million in stock value are not required to file. In rare cases, the FTC/DOJ will make a second request for information which will extend the evaluation time. In the UK, the Competition and Markets Authority performs a similar regulatory review.

Regulatory reviews typically occur once definitive agreements have been negotiated, but before the deal actually closes. Regulatory reviews typically run in parallel with Integration Planning.

Integration & Rollout Planning

The next step in the process focuses on determining how to integrate the two companies and rollout the integration to employees, customers, partners, industry analysts, and press. There are many different styles of accomplishing this. Some organizations use a boot camp approach where teams from both companies meet in an offsite location to plan the integration/rollout over a compressed period of time. Other approaches spread the process out over weeks/months, meeting part time. The approach is dependent on how the senior leaders of the acquiring company want to drive the process.

Most planning and rollout planning efforts cover the following seven items:

- Concept of Operations
- Organization Chart & Roster Development
- Business Plan Development
- Transition Plan Development
- Separation Planning
- Announcement
- Transition Plan Management

Concept of Operations

Senior management develops a basic concept of operations based on the information learned during management meetings and due diligence. This concept lays out the basic framework for how the merged company will operate. It answers questions like will the acquired company's business functions be consolidated into the existing organization or will it operate as a separate business unit? Will the company and products be rebranded? Will some products/services be discontinued? The concept of operations provides a foundation which the integration team can use to guide their planning activities.

Organization Chart & Roster Development

One of the first things teams do in Integration Planning is to define to new organizational chart and roster. This is typically a top down process with senior executives being picked first, followed by their direct reports. These individuals are then typically invited into the planning process. Usually senior positions are split between the acquiring company and the acquired company. This process continues on an iterative basis until a determination is made for every employee. Employees are categorized as Keeps (stay with combined organization), Cuts (position eliminated in the combined organization, or Transition (stay with combined organization and transition their responsibilities to other employees and then the position is eliminated).

This is typically the most difficult activity in Integration Planning. Many acquisitions rely on reducing labor costs to achieve pre-established financial targets. It is difficult to decide the fate of co-workers that you have worked with for many years and through no fault of their own find that their position is redundant and will be eliminated. It is vitally important that these decisions be kept confidential until the actual rollout of the acquisition. The time period between when an acquisition is announced and when it closes and rolls out is often called the valley of death. Employees sit around and constantly wonder about their fate. The best integration processes compress this time to as short as possible.

Business Plan Development

The next step in the Integration process is to develop business plans for each organization. Generally this includes defining goals and objectives, strategies to achieve the goals, tactics to implement the strategies, timelines and milestones, and budgets. Risk and risk mitigation plans are also covered. Specific deliverables required to support the rollout of the acquisition are developed as well. Product Managers and Product Marketers are actively involved in these activities. This is typically an iterative process. Each organization develops a portion of their plan, presents it to senior management to obtain feedback and guidance, and then they develop another iteration of their plan. They will also interlock their plans with other affected organizations.

Some deliverables need to be available for the rollout of the acquisition. Examples can include brand updates, website updates, customer communications, product/service roadmaps, sales compensation plans, integrated HR title, compensation, and benefit plans, updates to payment processing procedures, customer service phone line greetings, etc. The list can go on and on.

Transition Plan Development

In addition to the business plan, each organization develops a transition plan. Some integration activities cannot be completed in the timeframe of the integration planning process. Rebranding software products, migrating/consolidating financial systems (GL/AR/AP/Payroll), executing data center consolidations are a few common tasks. Detailed plans need to be developed that describe the tasks, timing, resources, and milestones associated with transitioning to the new organization.

Separation Planning

An unpleasant but necessary task is to plan for the separation of employees whose positions were eliminated as part of the integration. The terminations affect both employees of the acquired company, but the acquiring company as well. As part of organization chart and roster development, certain employees will be identified for termination. It is important to stress that these terminations are not a result of poor job performance, but a function of designing a new more effective organization.

Depending on the number of terminations, the acquiring company may have to comply with the terms of the WARN Act (Worker Adjustment and Retraining Act). The WARN Act generally requires 60days notice of a mass layoff or the equivalent minimum payment in severance. Employees in EU countries also have specific rights as well in the case of what is known as collective redundancies.

One example from my career involved 75 consultants in Italy that were working at very low rates for a major client. The revenue the consultants generated was immaterial to the company's total revenues. In the company at the time we preferred to have consulting services primarily delivered by partners versus our own staff. If we decided to layoff the consultants, under Italian law it would have cost us almost as much as we paid for the entire company. Instead we struck a strategic relationship with a partner and they hired all of the consultants and committed to a large purchase of the company's products for resale. It was a win for all parties involved.

Separation planning involves developing a severance policy, preparing severance packages (pay, continuation of benefits, outplacement services), identifying the managers who will make the employee notifications, training the managers, and developing a timeline for conducting the notifications. Employees are typically terminated the day the acquisition formally closes and rolls out.

Closing

Closing is the formal legal process of completing the acquisition. Depending on the situation this can include the execution of definitive agreements, conducting a shareholder meeting and proxy vote, notification of appropriate governmental agencies/stock exchanges, and the disbursement of funds. This step is generally not held in public.

Rollout

Concurrent with the closing the acquisition is rolled out to employees, shareholders, customers, partners, industry analysts, and press. Generally all hands employee meetings are held after notifications to terminated employees are conducted. Individual organization and tea meetings are often help after the general all hands meeting. Press releases are issued and industry analysts are

briefed. Sometimes analysts are briefed before the rollout on an embargo basis – they agree not to publish anything until the public rollout date.

Post Rollout Assessment

60 to 90 days after the completion of the acquisition a post rollout assessment is held. The goal of this assessment is to identify what worked, what did not work, and how the process can be improved for the next acquisition. There is an old saying that "No battle plan survives the first contact with the enemy". The same is true for acquisitions. Detailed planning and experience can help, but there are so many moving parts in an acquisition that there are always opportunities to improve.